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South Africa, Republic of

Tobacco and Products

Annual

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Report Highlights:

South Africa's 2003 tobacco crop is currently estimated at 26,400 tons dry weight, a little smaller than the 2002 crop. Consumption is estimated at 31,500 tons which means that supplies are supplemented by imports while unsuitable tobacco is exported. Cigarette consumption is estimated at about 27,000 million per annum while about 2,500 million are exported. Imports are small.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

South Africa's 2003 tobacco crop is currently estimated at 26,400 metric tons dry weight, a little smaller than the 2002 crop. About 22,000 tons are expected to be flue-cured tobacco, with the rest mainly air-cured. Unmanufactured tobacco consumption is estimated at about 31,500 tons and declining slowly as a result of the Government's anti tobacco legislation. Stocks are supplemented by imports while unsuitable tobacco is exported. Imports and exports usually total about 18,000 tons per annum with the bulk of the flue cured imports supplied by Zimbabwe and Burley by Malawi. These imports are mainly duty free under long standing arrangements.

Cigarette consumption is also declining; current consumption estimates are around 27,000 million cigarettes per annum with exports around 2,500 million. As a result of the high taxes, smuggling and duty avoidance are high.

Unmanufactured Tobacco

PSD Table						
Country	South Africa, Republic of					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	15500	15000	15000	14400	0	13700
Beginning Stocks	28660	28660	29535	27990	27285	27620
Farm Sales Weight Prod	34000	34000	29950	29500	0	29000
Dry Weight Production	32725	30940	28450	26850	0	26400
U.S. Leaf Imports	805	750	800	188	0	200
Other Foreign Imports	18025	18080	15000	25527	0	18800
TOTAL Imports	18830	18830	15800	25715	0	19000
TOTAL SUPPLY	80215	78430	73785	80555	27285	73020
Exports	18450	18450	15000	18920	0	14500
Dom. Leaf Consumption	15855	14665	15500	14500	0	14000
U.S. Leaf Dom. Consum.	800	750	800	200	0	200
Other Foreign Consump.	15575	16575	15200	19315	0	17250
TOTAL Dom. Consumption	32230	31990	31500	34015	0	31450
TOTAL Disappearance	50680	50440	46500	52935	0	45950
Ending Stocks	29535	27990	27285	27620	0	27070
TOTAL DISTRIBUTION	80215	78430	73785	80555	0	73020

Production

Unfortunately the availability of South African tobacco statistics declined with the demise of the Tobacco Board and the advent of the free market a few years ago. At this stage there are no signs that the situation will improve in the short term. Dry weight production figures had to be decreased to reflect marketable tobacco baled, excluding stalks etc. The 2002 crop showed a major decrease over the 2001 crop and indications are that the 2003 crop will continue the long term decline. The 2001 season enjoyed favorable weather conditions and a good yield which was not repeated in 2002. Quality and prices suffered in the process, which again led to a decline in area planted. South Africa stopped producing burley tobacco in the early nineties and production of oriental tobacco was also recently abandoned. The delivery, cleaning, and processing of the 2003 crop only started recently and the forecast shown is preliminary.

Estimated production table:

Product	Area	planted	Hectare	Dry weight	production	Metric ton
	2001	2002*	2003**	2001	2002*	2003**
Flue cured	12 750	12 250	11 650	25 785	22 365	21 960
Air cured	2 100	2 150	2 050	5 030	4 485	4 440
Oriental	150	0	0	125	0	0
TOTAL	15000	14 400	13 700	30 940	26 850	26 400

*Estimate

** Forecast

Consumption

Domestic consumption of tobacco products is based on duty paid removals as shown in the following table;

	Cigarettes, million pieces	Cigarette tobacco mt.	Pie tobacco mt.
2000	25,670	17.1	7265.4
2001	25,278	20.0	7281.1
2002	29,269	17.0	6655.0

Based on these figures, and using 1,200 cigarettes produced per kilogram tobacco and a 5% processing loss, tobacco consumption is calculated, export production added, and the data used in the PS&D. Using this calculation, 2000 consumption amounted to 31,465 tons, 2001 to 31,990 tons and 2002 to 34,015 tons. The 2002 figure bucks the trend but is probably influenced by stock changes. The 2003 consumption figure is expected to decline to 31,500 tons in line with the long term downward trend.

Trade

Tobacco imports continue unabated and reached 18,830 tons in 2001 but jumped to 25,715 tons in 2002. These figures may include transshipments. Imports from the US are small.

Under existing trade agreements, South African companies may import up to 9,000 tons of flue cured tobacco duty free from Zimbabwe annually. Up to 3,000 tons of air cured and burley tobacco may be imported duty free from Malawi annually. In addition, under South Africa's commitment under the World Trade Organization (WTO): Marakesh Agreement regarding market access, a tariff rate quota of 16,773 tons of tobacco is allowed to be imported at a reduced rate of duty of 8.8% ad valorem. These arrangements makes the 15% general rate of duty virtually redundant. The general rate of duty is 15% or 860 c/kg. less 85%, as mentioned, while the Southern African Development Community (SADC) preferential duty is free.

Import Trade Matrix			
Country	South Africa, Republic of		
Commodity	Tobacco, Unmfg., Total		
Time period	Jan - Dec	Units:	Mt.
Imports for:	2001		2002
U.S.	750	U.S.	188
Others		Others	
Zimbabwe	7328	Zimbabwe	6484
Brazil	3265	Brazil	5140
India	1132	India	2258
Malawi	1578	Malawi	2238
Tanzania	79	Tanzania	1872
Zambia	346	Zambia	1758
China	182	China	1224
Italy	194	Italy	1157
Paraguay	867	Paraguay	947
Uganda	510	Uganda	325
Total for Others	15481		23403
Others not Listed	2599		2125
Grand Total	18830		25716

Exports are even more interesting as the table shows Zimbabwe as the main destination, while Zimbabwe is one of the world's major exporters (See Rh 3002 Zimbabwe Annual Tobacco report). Some of the tobacco is sent to Zimbabwe for blending purposes while other quantities are sent for cleaning and processing after the local handling arrangements collapsed. The 2001 Trade Atlas exports of 36,923 tons were much bigger than usual and the consensus is that it was a mistake and that the real figure is about half that. It may have included some Zimbabwean tobacco shipped through South Africa although they mainly use the port of Beira in Mozambique. The 2002 exports returned to a more normal 18,919 tons.

Export Trade Matrix			
Country	South Africa, Republic of		
Commodity	Tobacco, Unmfg., Total		
Time period	Jan - Dec	Units:	Mt.
Exports for:	2001		2002
U.S.	2850	U.S.	1614
Others		Others	
Zimbabwe	4065	Zimbabwe	2915
Switzerland	2655	Switzerland	2810
Paraguay	300	Paraguay	1584
China	700	China	743
Germany	730	Germany	686
Hong Kong	255	Hong Kong	684
Philippines	330	Philippines	580
Russian Fed.	440	Russian Fed.	556
Sweden	310	Sweden	551
Belgium	125	Belgium	367
Total for Others	9910		11476
Others not Listed	5690		5829
Grand Total	18450		18919

Flue-cured Tobacco

PSD Table						
Country	South Africa, Republic of					
Commodity	Tobacco,Un mfg.,Flue Cured				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[Ne w]	USDA Official[Old]	Post Estimate[Ne w]	USDA Official[Old]	Post Estimate[Ne w]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	12850	12750	0	12250	0	11650
Beginning Stocks	15850	22010	16850	21555	16850	21260
Farm Sales Weight Prod	26350	28650	0	24850		24400
Dry Weight Production	24800	25785		22365		21960
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	15200	15625	0	21340	0	15750
TOTAL Imports	15200	15625	0	21340	0	15750
TOTAL SUPPLY	55850	63420	16850	65260	16850	58970
Exports	12500	15315	0	15700	0	12050
Dom. Leaf Consumption	13500	15550	0	16850	0	13200
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	13000	11000	0	11450	0	11550
TOTAL Dom. Consumption	26500	26550	0	28300	0	24750
TOTAL Disappearance	39000	41865	0	44000	0	36800
Ending Stocks	16850	21555	16850	21260	0	22170
TOTAL DISTRIBUTION	55850	63420	16850	65260	0	58970

Burley

PSD Table						
Country	South Africa, Republic of					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	0	0	0	0	0	0
Beginning Stocks	1850	1850	2135	1815	2135	1760
Farm Sales Weight Prod	0	0	0	0	0	0
Dry Weight Production	0	0	0	0	0	0
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	1550	1530	0	1500	0	1440
TOTAL Imports	1550	1530	0	1500	0	1440
TOTAL SUPPLY	3400	3380	2135	3315	2135	3200
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	0	0	0	0	0	0
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1265	1565	0	1555	0	1550
TOTAL Dom. Consumption	1265	1565	0	1555	0	1550
TOTAL Disappearance	1265	1565	0	1555	0	1550
Ending Stocks	2135	1815	2135	1760	0	1650
TOTAL DISTRIBUTION	3400	3380	2135	3315	0	3200

Cigarettes

PSD Table						
Country	South Africa, Republic of					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Filter Production	26132	26050	25545	30295	0	28200
Non-Filter Production	1670	1370	1630	1593	0	1300
TOTAL Production	27802	27420	27175	31888	0	29500
Imports	382	382	375	202	0	150
TOTAL SUPPLY	28184	27802	27550	32090	0	29650
Exports	2524	2524	2000	2820	0	2250
Domestic Consumption	25660	25278	25550	29270	0	27400
TOTAL DISTRIBUTION	28184	27802	27550	32090	0	29650

General

BAT (British American Tobacco), the number 2 producer in the world, dominates the local market. An actual PS&D in million cigarettes, but excluding imports, can be supplied based on SARS excise data.

Million cigarettes	Cy 2000	Cy 2001	Cy 2002
Beginning stocks	3737	3877	3583
Production*	27336	27508	30131
Total supply	31073	31385	33714
Consumption	25670	25278	29269

Exports	1526	2524	2820
Ending stocks	3877	3583	1625

* Losses, reworked stocks and abandonments taken into account in the production figures in the table above. PS&D does not allow for losses and gains.

The jump in production and consumption in 2002 may be due to stock adjustments or better compliance with the excise duty regime. Over recent years we have questioned some data as the high duties on tobacco products encourage tax avoidance, fraud and smuggling. Police recently found a complete, automated factory using modern equipment producing counterfeit cigarettes. Smuggled cigarettes are regularly confiscated but the suspicion is that duties are also avoided by fake export documents etc.

Policy

The Tobacco Act, passed by parliament in April 1999, is extensive and basically introduced a ban on all tobacco advertising and sponsorships. It bans smoking in public places, with certain exemptions. It provides for "point of sale" advertising to continue. It also, for the first time, gives the Minister the power to prescribe maximum yields of tar and other constituents. It bans free distribution and reward and places further restrictions on the use of vending machines.

The new regulations published in September 2000 consist of one Proclamation and four Government Notices. The Presidential Proclamation states that the Tobacco Products Control Amendment Act, no 12 of 1999, came into effect on October 1, 2000.

The first notice deals with the maximum permissible yields of tar and nicotine and other constituents in tobacco products.

The tar yield of cigarettes must not be greater than 15 mg per cigarette and the nicotine yield not greater than 1.5 mg by December 1, 2001. These maximum levels must then be lowered to a tar yield of 12 mg per cigarette and a nicotine yield of 1.2 mg nicotine per cigarette by June 1, 2006.

The second Notice is an extensive piece of legislation regulating smoking in public places. A public place is defined as an indoor or enclosed area and the notice defines certain public places such as pubs, restaurants, bars, taverns and "smoking establishments". It then goes on to deal with the types of public places where smoking is permitted and the conditions under which smoking is permitted.

In principle, a person in charge of a public place may designate a portion of the public place as a "smoking area" provided that the designated area does not exceed 25% of the total floor area, is separated by a solid partition and an entrance door; and has a ventilation system which directly exhausts air. The notice also regulates smoking in the workplace. Some of the regulations ran foul of building and hospitality regulations and have not been implemented.

The third Notice deals with point of sale advertising of tobacco products. The signs may not exceed one square meter and must be placed within one meter of the point of sale.

The fourth Notice deals with certain exemptions and the phasing out of existing sponsorship obligations or contractual obligations in respect of advertising. All sponsorships taking place in terms of contracts which were in place of April 23, 1999 were allowed to continue up to April 23, 2001. Tobacco product advertising like print media and billboards can continue if they are taking place in terms of a contract which had been in place on April 23, 1999 but since October 1, 2000 no new contracts can be signed. With advertising and promotion expenditure a main expenditure item for the tobacco companies, the restrictions will have a positive effect on their profitability.

Tariffs and Duties

As usual, Customs and Excise duties on cigarettes were increased again this year. The latest Customs duty on cigarettes is 45% ad valorem and the Excise duty is 194.25 c/10 cigarettes, up from 175.4 c/10 last year. This takes the Government share of a R11.50 packet of 20 to R3.89 excise duty plus R 1.35 for the 14% sales tax to R5.24 or 46%. At this level of tax avoidance becomes lucrative.

On the other hand a packet of twenty high quality cigarets retails for about R11.50 which is less than 1.5 dollar.

The Customs duty on imported cigarettes is 45% ad valorem and 27% for SADC member states.

The following table contains the applicable duties over the past few years:

Cigarettes	Excise duties	Customs duties	
Tariff # 104.30.20		Countervailing duties	Import duties
2000	141.5 c/10 cigarettes	141.5 c/10	45% (SADC 27%)
2001	158.4 c/10 cigarettes	158.4 c/10	45% (SADC 27%)
2002	175.4 c/10 cigarettes	175.4 c/10	45% (SADC 27%)
2003	194.25 c/10 cigarettes	194.25 c/10	45% (SADC 27%)

Trade

Unfortunately the cigarette trade statistics are very confusing for the same reasons mentioned before. It appears that South Africa imported 318,109 kg. in 2001 and 168,593 kg. in 2002. The US still exports cigarettes to South Africa although some US brands are being produced locally. The export picture is much more confusing as SARS duty and export figures vary considerably. The export matrix is based on SARS duty totals and SARS trade figures for destinations.

Import Trade Matrix			
Country	South Africa, Republic of		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan -Dec	Units:	Kg.
Imports for:	2001		2002
U.S.	17473	U.S.	33160
Others		Others	
United Kingdom	40090	United Kingdom	58166
Zimbabwe	33905	Zimbabwe	47731
France	37972	France	22940
Switzerland	46795	Switzerland	4141
India	0	India	705
Japan	0	Japan	690
Germany	1648	Germany	262
Total for Others	160410		134635
Others not Listed	140226		798
Grand Total	318109		168593

Export Trade Matrix			
Country	South Africa, Republic of		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan -Dec	Units:	Kg.
Exports for:	2001		2002
U.S.	7997	U.S.	6780
Others		Others	
Angola	446150	Angola	1551758
Nigeria	60458	Nigeria	298537
Mozambique	699446	Mozambique	160509
Congo	11271	Congo	82526
Niger	33354	Niger	80084
UAE	33028	UAE	65729
Zambia	49352	Zambia	15526
Zimbabwe	96320	Zimbabwe	11946
Ghana	155727	Ghana	9620
Malawi	128815	Netherlands	7079
Total for Others	1713921		2283314
Others not Listed	381685		59933
Grand Total	2103603		2350027

Marketing